First Trust DATAWATCH

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First Quarter GDP (Advance)

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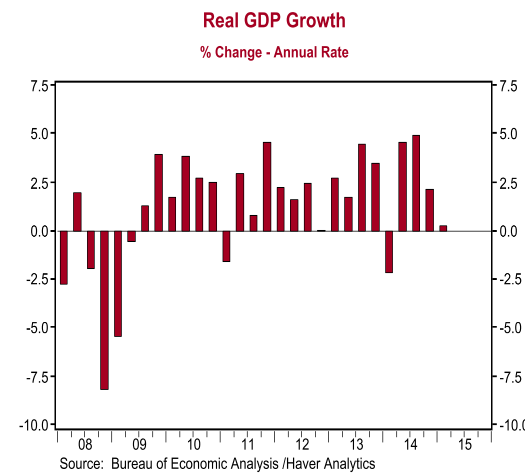
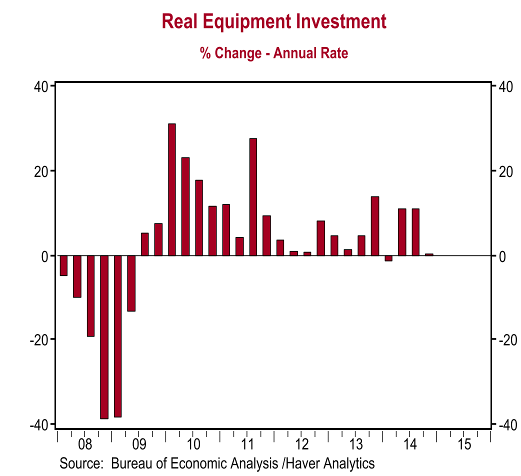
- The first estimate for Q1 real GDP growth is 0.2% at an annual rate, below the 1.0% the consensus expected. Real GDP is up 3.0% from a year ago.
- The largest positive contributions to the Q1 real GDP growth rate were consumer spending and inventories. The largest drags were net exports and commercial construction.
- Personal consumption, business investment, and home building grew at a combined 1.1% annual rate Q1 and are up 3.3% from a year ago.
- The GDP price index declined at a 0.1% annual rate in Q1. Nominal GDP – real GDP plus inflation – rose at a 0.1% rate in Q1 and is up 3.9% from a year ago.





Implications: Don't say we didn't warn you. We were forecasting a below-consensus 0.7% annualized GDP growth rate and, as we recently wrote, "anytime a forecast…is so slow, it's well within the realm of possibility the economy actually shrank." And, wow, did it come close. Real GDP grew at a scant 0.2% rate in Q1. However, temporary factors played a major role and we think real GDP will grow at an average rate of 3% for the rest of the year. First, the weather was unusually bad; this February was the coldest for the most people since 1979. Second, West Coast port strikes disrupted supply channels. And third, the huge drop in energy prices has dampened drilling activity before the benefits of lower prices affected other sectors. We'll have to wait until tomorrow for details, but commercial construction fell at a steep 23% rate in Q1, suggesting a big effect from bad weather and energy. The bottom line is that investors should look at Q1 like they should have looked at Q1 last year, when even worse weather generated a 2.1% annualized drop in real GDP, followed by an average growth rate of 4.8% in Q2 and Q3. To check the underlying trend in real GDP growth, we like to take out inventories, international trade, and government spending, none of which can be relied on for long-term growth. What's left are consumer spending, business investment, and home building. Those grew at a 1.1% annual rate in Q1, are up 3.3% from a year ago, and up at a 3% rate in the past two years. With the Federal Reserve meeting today, everyone's talking about how the GDP report will affect the path of short-term rates. Our answer is simple: not at all. The Fed is well aware of the temporary factors hurting the economy and will be focused on data over the next seven weeks before the June meeting. Over that time, we'll get two reports each on employment and retail sales, plus lots of other data. If they show the rebound we expect, the Fed will have no problem starting rate hikes in June. In the meantime, nominal GDP (real GDP growth plus inflation) grew at only a 0.1% rate in Q1 but is still up 3.9% in the past year and up at a 3.6% annual rate in the past two years, suggesting the Fed can raise rates without harming the economy. In other recent news, the Case-Shiller index shows home prices increased 0.4% in February and are up 4.2% in the past year, led by Denver, San Francisco, Miami, and Dallas. Expect more price gains in the year ahead, but at a slightly slower rate. On the manufacturing front, the Richmond Fed index, which measures mid-Atlantic factory sentiment, rose to -3 in April from -8 in March. That, combined with other reports, suggests slow growth in manufacturing nationwide in April.

3rd Quarter GDP Seasonally Adjusted Annual Rates	Q1-15	Q4-14	Q3-14	Q2-14	4-Quarter Change
Real GDP	0.2%	2.2%	5.0%	4.6%	3.0%
GDP Price Index	-0.1%	0.1%	1.4%	2.1%	0.9%
Nominal GDP	0.1%	2.4%	6.4%	6.8%	3.9%
PCE	1.9%	4.4%	3.2%	2.5%	3.0%
Business Investment	-3.4%	4.7%	8.9%	9.7%	4.9%
Structures	-23.0%	5.9%	4.8%	12.6%	-1.0%
Equipment	0.1%	0.6%	11.0%	11.2%	5.6%
Intellectual Property	7.8%	10.3%	8.8%	5.5%	8.1%
Contributions to GDP Growth (p.pts.)	**Q1-15**	**Q4-14**	**Q3-14**	**Q2-14**	**4Q Avg.**
PCE	1.3	3.0	2.2	1.8	2.1
Business Investment	-0.4	0.6	1.1	1.2	0.6
Residential Investment	0.0	0.1	0.1	0.3	0.1
Inventories	0.7	-0.1	0.0	1.4	0.5
Government	-0.2	-0.4	0.8	0.3	0.2
Net Exports	-1.3	-1.0	0.8	-0.3	-0.5